

Good MornING Asia - 26 January 2018

Contrasting comments at Davos and ECB cloud outlook for Asian currencies

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Opinion | 25 January 2018

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- Draghi says weaker USD not in line with G-20 agreements



Gloves off

Draghi pushes back against weaker USD

ECB President, Mario Draghi must feel a little bit like 11th Century King of Northumbria, King Canute (Cnut or Knut for the purists) who tried to use his divine powers to hold back the tides. OK, the actual story is a little more complicated than that for Canute as it is for Draghi, but the effect is roughly the same. Draghi pushed back at the ECB's latest press briefing against the recent comments by US Treasury Secretary, Steven Mnuchin, whose weak USD comments earlier in the week gave an already tumbling dollar an additional hard push.

Draghi states the obvious

Noting that curbing excessive volatility was part of a G-20 pledge, Draghi made a fairly thinly veiled attack on such comments and was surprisingly backed up separately by US President, Donald Trump, who now seems to ultimately want a stronger dollar, though the key word here is "ultimately". The list of things he wants to happen first before that happens is likely a long and improbably optimistic one.

Draghi also said that he sees very little chance of interest rates rising in the Eurozone this year. But that is a bit like me announcing that I see very little likelihood that I will win Wimbledon this year. No-one is expecting either, and this is unlikely to have helped bring the EUR down. Further analysis

on the latest ECB press conference is available in the link from our Eurozone economists. But in short, it said little that was new.

[See comments](#) on ECB Press briefing from our Eurozone economists

Trump says some helpful things

Further optimism on the US might also have come from the US President's offer for a deal on immigration, which should raise the chances of a proper spending deal after the current one expires on February 8th. This could be linked to some funding for Trump's Mexican Wall.

The US President has also made some modestly positive remarks about NAFTA, which might also have lent a helping hand to the USD, noting that he thought a deal was possible. This is in stark contrast to recent negative remarks, and it is difficult to know whether this is the latest thinking from the US president, or just random vacillations of opinion, which could swing back to hostility in a few days. Nonetheless, as a guide to the tone of the US President's remarks at Davos later today, they may be instructive. Today's 4Q17 US GDP data may also provide some support for the dollar, at least to round off the week, though we don't think this marks a change in the falling tide for the currency.

Will higher inflation soften Kuroda's stance?

We also hear from BoJ Governor Kuroda at Davos today. Given the recent statement and press conference which gave nothing away, Kuroda will be watched hard for any clues that the BoJ is not so staunchly defending the current monetary policy stance. Today's reasonable inflation data may provide some excuse for Kuroda to take a more upbeat path - though it sounds like wages are now the key figure to watch, and we would be very surprised if Kuroda gave anything away today.

Today in Asia - Singapore production

It's a thin day in Asia for data, with Singapore's industrial production top of the billing. There is a lot of noise in a fairly loose consensus estimate (more than 9 percentage points top to bottom) in which the decent month on month gains seen in November could give way to some weakness. Year on year production is likely to moderate too. We also see labour market data from Singapore. The unemployment rate has been flat for 4 consecutive months at 2.2%, and the consensus expects a slight downtick to 2.1%. Directionally this is helpful, but it is not going to change what is otherwise a fairly limp household consumer spending and as such leaves the April MAS decision in the balance.

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Malaysian central bank starts policy normalisation

We forecast one more 25bp rate hike from Bank Negara Malaysia in the third quarter, after political uncertainty lifts



3.25% BNM policy rate

As expected

BNM raises rates by 25bp

Bank Negara Malaysia (BNM), the central bank raised the overnight policy rate by 25bp to 3.25% today, the first policy move since July 2016 when BNM had eased by 25bp. The hike was well-flagged by BNM at the previous policy meeting in November, widely predicted by 16 out of 20 forecasters in the Bloomberg poll, and priced in by the markets as evident from accelerated Malaysian ringgit appreciation since early November. Therefore, we expect little to no market impact from the rate hike.

Normalisation, not tightening

As the BNM policy statement notes, this is a normalisation of monetary policy, not a tightening. The statement highlighted, "... the need to pre-emptively ensure that the stance of monetary policy is appropriate to prevent the build-up of risks that could arise from interest rates being too low for a prolonged period of time".

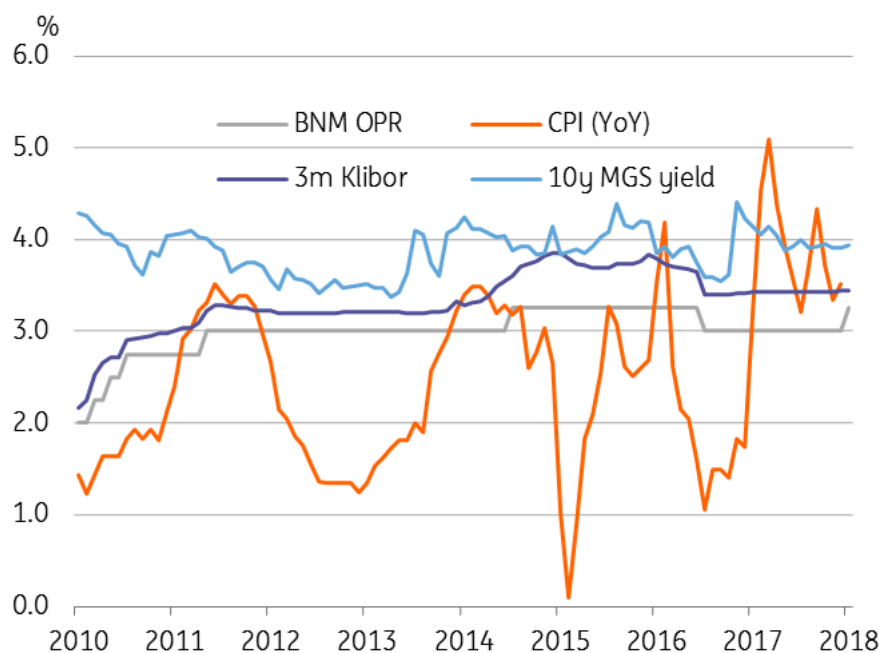
The policy space

Today's BNM move takes the policy rate to the level where the post-2008 Global Financial Crisis tightening cycle had left it at. With the policy rate likely hitting the historical (since BNM implemented new interest rate framework on 26 April 2004) peak of 3.50% within the current year, we do not anticipate the current tightening cycle to stretch for too long.

We forecast one more 25bp BNM rate hike in the third quarter, after the political uncertainty associated with general elections in August lifts. At the moment we see no strong reasons for the BNM to tighten policy too much. The economy remains on a firm footing to eke out a 5%-plus growth for another year in 2018. Rising global commodity prices should support exports as election spending works its way to boost strong domestic demand. Absent a supply shock to food prices or an oil shock to fuel prices, the inflation outlook for this year appears to be benign.

Against such an economic backdrop, the relative undervaluation offers the Malaysian Ringgit sufficient scope to outperform Asian peers again in 2018. We are reviewing our end-2018 USD/MYR forecast of 3.78% for downward revision.

Inflation, BNM policy and market rates



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